

HOUSE RESEARCH

Bill Summary

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Authors: Zerwas and others

Subject: Fund Transfer; Elk River School District

Analyst: Tim Strom

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Overview

School districts are required to adopt and use a uniform system of records and accounting. The adopted system, a modified accrual accounting system, is known as Uniform Financial Accounting and Reporting System (UFARS). Under UFARS every district must maintain a number of operating funds (e.g., general fund, food service, community service) and nonoperating funds (e.g., building construction, debt service, trust and agency). UFARS and the state's public indebtedness statute for municipalities prohibit certain types of fund transfers between funds and from certain reserved accounts.

A school district generally finances major construction costs by selling bonds. The proceeds from the sale of bonds are placed into the building construction fund to pay for construction costs. The school district annually is then required to levy 105 percent of the amount it needs to ensure that it has sufficient funds to repay the building bonds. The amount in excess of the sum actually needed to repay the building bonds is referred to as "debt excess." A statutory process exists to reduce debt excesses, but that calculation may still leave a positive fund balance in a district's debt redemption fund.

Under the accounting rules followed by the legislature, a transfer from the debt redemption fund is shown as an increase in the district's local levy (and aid if the district qualifies for debt service equalization aid) because in the absence of the fund transfer legislation, the amount to be transferred would be used to reduce the following year's debt service levy.

Section

This bill authorizes independent School District No. 728, Elk River, to transfer up to 80 percent of the balance in its debt redemption fund in a manner that would affect three consecutive years, beginning on June 30, 2013. The Department of Management and Budget estimates that transfer of debt excess would have a combined aid and levy impact of approximately \$1.1 million per year.

Section

- 1** **Fund transfer; Elk River.** Authorizes independent School District No. 728, Elk River, to transfer up to 80 percent of the excess in its debt redemption fund to its undesignated general fund balance without making a levy reduction.